

Message Text

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ORIGIN SS-25

INFO OCT-01 SSO-00 NSCE-00 ISO-00 /026 R

DRAFTED BY EB/IFD/ODF:RSGELBARD:CU

APPROVED BY EB/IFD:PHBOEKER

ARA/CAR:WWHEELER

TREAS:BZINMAN

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O 181310Z OCT 74

FM SECSTATE WASHDC

TO AMEMBASSY GEORGETOWN IMMEDIATE

C O N F I D E N T I A L STATE 229365

EXDIS

E.O. 11652:GDS

TAGS:EFIN, IBRD, GY, UK

SUBJECT:IBRD LENDING POLICY TO GUYANA

REFS: (A) GEORGETOWN 1869; (B) GEORGETOWN 1856

1. DEPARTMENT BELIEVES THAT IBRD SHOULD ANSWER ANY GOG CHARGES RE IBRD POSITION ON GUYANA ELECTRICITY EXPANSION PROJECT LOAN, AND EMBASSY SHOULD RESTRICT STATEMENT TO ASSESSING LACK OF USG INVOLVEMENT IN THESE IBRD DECISIONS.

2. FYI ONLY: BURNHAM'S REACTION TO IBRD POSITION BASED ON RECENT INTERRELATED EVENTS INVOLVING IBRD LENDING POLICY WHICH HAVE NOT DIRECTLY INVOLVED USG. FIRST OF THESE WAS IBRD CRITICISM OF LACK OF RATE INCREASES TO COMPENSATE FOR RISING COSTS INVOLVED IN ELECTRICITY SYSTEM EXPANSION LOAN TO GUYANA ELECTRIC CORPORATION (GEC). ACCORDING TO IBRD SOURCE, BANK LETTER TO GEC STATED THAT IBRD QUOTE INFLEXIBLE UNQUOTE ABOUT NECESSITY FOR RATE INCREASE BUT FLEXIBLE AS TO HOW GOG TO ACCOMPLISH IT IN ORDER TO ACHIEVE RATE OF RETURN OF AT LEAST EIGHT PERCENT (LOAN DOCUMENT CALLED FOR TEN PERCENT).

3. IBRD/GOG PROBLEMS FURTHER COMPLICATED DURING BANK TEAM VISIT (WHICH COINCIDED WITH NYERERE VISIT) AS RESULT OF IBRD
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TEAM USE OF REPORTS ON GUYANA'S ECONOMIC OUTLOOK PREPARED

WHEN GOG PROSPECTS WERE POOREST, IBRD TEAM WAS REPORTEDLY CONCERNED OVER GOG DIFFICULTIES IN FINANCING DEVELOPMENT PROGRAMS AND MADE RECOMMENDATIONS TO IMPROVE NOT ONLY ENERGY SECTOR, BUT OTHER ASPECTS GUYANESE ECONOMY, WHICH GOG RESENTED.

4. SITUATION RE IBRD POSITION ON THIS LOAN HAS NOT IMPROVED AND APPEARS TO BE TAKING CONFRONTATIONAL TURN. DURING RECENT IMF/IBRD MEETINGS IN WASHINGTON, GOG REPS ASSERTED THAT BURNHAM WILL NOT ALLOW RATE INCREASES TO TAKE PLACE UNTIL MID-1976, WHILE IBRD SUGGESTS GRADUAL INCREASES TO PERMIT RATE OF RETURN TO REACH AREA OF EIGHT PERCENT BY LATE 1975. BANK HAS IMPLIED POSSIBILITY OF STOPPING DISBURSEMENTS IF SITUATION NOT RESOLVED TO ITS SATISFACTION, BUT PRESSURE ON MANAGEMENT FROM BOTH CANADA AND UK TO PUSH FOR IBRD ACCEPTANCE OF LOWER RATE OF RETURN APPARENTLY STARTING. BANK STAFF IS DISCUSSING PROBLEM WITH WINSTON KING IN HOPES OF FINDING SOLUTION.

5. ON BASIS BRITISH HICOM'S REPORT RE BURNHAM'S ALLEGATIONS, UK ALTERNATE DIRECTOR AT IBRD REQUESTED CLARIFICATION U.S. POLICY TOWARDS GUYANA FROM EB DEPUTY ASSISTANT SECRETARY PAUL BOEKER, WHO EXPLAINED REYNOLDS SITUATION AND MANDATORY CONSEQUENCES EXPROPRIATIONS (WITHOUT PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION) HAVE ON U.S. VOTING IN MULTILATERAL INSTITUTIONS, I.E., GONZALEZ AMENDMENT. BOEKER ALSO STRESSED WORLD BANK'S OWN STRONG POLICY ON UNCOMPENSATED EXPROPRIATION. END FYI. KISSINGER

NOTE BY OC/T: EXDIS CAPTION ADDED PER S/S-O - MR. JOHNSON.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, FINANCIAL COOPERATIVES, BANK LOANS, GOVERNMENT REACTIONS, FOREIGN POLICY POSITION
Control Number: n/a
Copy: SINGLE
Draft Date: 18 OCT 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE229365
Document Source: CORE
Document Unique ID: 00
Drafter: RSGELBARD:CU
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740297-0352
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741035/aaaabdjp.tel
Line Count: 91
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: (A) GEORGETOWN 1869; (B) GEORGETOWN, 1856
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 16 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 SEP 2002 by boyleja>; APPROVED <05 MAR 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BRD LENDING POLICY TO GUYANA
TAGS: EFIN, GY, UK, US, IBRD, (BURNHAM)
To: GEORGETOWN
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005